

Projecting Residential Savings in Delaware's Telephone Market

One Year After Verizon's Entry into the Delaware Long-Distance Market

Prepared by the Telecommunications Research and Action Center (TRAC)
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Synopsis

The Telecommunications Research Action Center (TRAC) projects that within one year of Verizon's entry into the long-distance market, over 70,000 Delaware customers could switch to Verizon's long-distance service and over 74,000 customers could switch to a competitive local telephone service. As highlighted in Table 1, these customers could realize up to \$34 million of annual statewide savings resulting from increased competition in the long-distance telephone market.

Table 1: Summary of Projected Delaware Consumer Savings One Year
After Verizon's Entry Into the Delaware Long-Distance Market

Savings	Long-Distance Savings	Local Savings	Total of Long-Distance and Local Savings
High-estimate (annual)	\$17,859,385	\$16,735,963	\$ 34,595,348
Low-estimate (annual)	\$ 3,631,025	\$ 4,575,635	\$8,206,660
High-estimate, per customer (annual)	\$254.40	\$ 225.20	N/A
Low-estimate, per customer (annual)	\$ 51.72	\$61.57	N/A
High-estimate (per month)	\$1,488,282	\$1,394,664	\$2,882,946
Low-estimate (per month)	\$ 302,585	\$381,302	\$683,887
High-estimate, per customer (monthly)	\$21.20	\$18.77	N/A
Low-estimate, per customer (monthly)	\$ 4.31	\$ 5.13	N/A
Customers Affected	70,200	74,316	N/A

Background

The purpose of this report is to estimate the potential savings that Delaware consumers could reasonably expect to achieve on their local and long-distance telephone bills one year after Verizon's entry into the long-distance market. Over the past two years, TRAC has monitored the impact of state telecommunications regulatory activity on consumers in a number of states. As with each of these previous studies, this examination of Delaware was conducted to ascertain if greater competition in the long-distance telephone market would yield financial savings to consumers. TRAC has found that increased competition in the local and long-distance telephone markets provides consumers with greater choice and lower overall telephone bills.

A TRAC study completed in April 2001 concluded that one year after Verizon's entry into the New York long-distance market, more than 1.7 million residential customers had switched to Verizon's long-distance offerings and 2.7 million residential customers switched from Verizon to a competitor's local service. Those customers were projected to save between \$79 and \$284 million annually on their long-distance telephone bills and between \$118 and \$416 million on local telephone service. A September 2001 TRAC report estimated that consumers in Pennsylvania, Illinois, Florida and Georgia could collectively save between \$508 million and \$1.8 billion a year on local and long-distance calling. A November 2001 TRAC study of the California market revealed potential consumer savings resulting from greater competition in the local and long-distance telecommunications market of

\$143 to \$881 million annually. A December 2001 TRAC report concluded that New Jersey consumers could save between \$22 million and \$167 million one year after greater competition in the long-distance market alone. Most recently, in January 2002 TRAC found that New Hampshire consumers could realize between \$43 million and \$71 million of annual statewide savings after increased competition in the long-distance telephone market.

As with these other TRAC investigations, this TRAC Delaware report uses the most up-to-date rate information included in TRAC's *TeleTips_(sm) Residential Long-Distance Comparison Chart*. The long-distance chart includes rate information from a variety of plans. The local rate information includes data from Verizon and Cavalier Telephone.¹

The methodology used in this TRAC examination is based closely on that used in the TRAC New York study. Additionally, the same estimates of customer telephone calling habits, specifically frequency and usage of calls, used in the New York study were used for this Delaware study. The number of customers projected to be affected by a new entrant in the long-distance market in Delaware was in part based on the percentage of customers affected in New York. Further explanation of this report's methodology and assumptions can be found in Appendix A (Methodology).

Discussion of Study Results

As highlighted in Table 1, one year after increased competition in Delaware's long-distance market, TRAC projects that 70,200 customers could reasonably be expected to switch to Verizon's long-distance service and 74,316 customers could reasonably be expected to switch away from Verizon to a competitor's local service offerings.

The (mean) average of the study's range of savings indicates that Delaware consumers could save approximately \$21 million on their local and long-distance phone bills within one year of Verizon's entry into the state's long-distance market. Appendix B provides details on how consumers with different calling habits could save money on their local and long-distance bills. Appendix C includes plan descriptions of local services compared in this report.

The low-end of annual residential long-distance savings that could reasonably be expected in the wake of Verizon's entry into the long-distance market is approximately \$3.6 million and the high-end is \$17.8 million. The average (mean) of this range of savings indicates that the state's consumers could likely save approximately \$10.7 million in one year. On a monthly basis, Delaware consumers could reasonably expect to realize between \$302,585 and \$1,488,282 of long-distance savings each month for one year after Verizon's entry into the long-distance market. Each customer that might switch to Verizon for long-distance service could reasonably expect to save between \$4.31 and \$21.20 a month, or \$51.72 and \$254.40 a year. The average (mean) of the low and high-estimates indicates that a typical consumer could expect to save approximately \$12.76 a month or \$153.12 a year by switching to Verizon's long-distance services.

One year after Verizon's entry into Delaware's long-distance market, 74,316 Delaware customers could reasonably be expected to save between \$4.5 million and \$16.7 million by switching their local telephone service from Verizon to another competitor. The average (mean) of this range of savings indicates that the state's consumers could likely save approximately \$10.7 million in one year by switching to a competitor's local phone service. On a monthly basis, Delaware consumers could reasonably expect to realize savings between \$381,302

¹ At the present time, aside from Verizon, Cavalier Telephone provides competitive residential local phone service throughout most of Delaware. A variety of independent local carriers provide regional telephone service.

and \$1,394,664 resulting from a switch from Verizon to another provider of local phone service. Due to increased telephone competition, a customer that switches to a competitive provider of local service might experience between of \$5.13 and \$18.77 a month, or \$61.57 and \$225.20 a year. The average (mean) of the low and high-estimates indicates that a typical Delaware consumer could expect to save \$11.95 a month or \$143.40 a year by leaving Verizon for another local service provider.

Conclusion

TRAC projects that residential customers would benefit greatly from increased competition and choice in the Delaware telephone market.

This study of the Delaware marketplace illustrates how the addition of one competitor to the marketplace can result in significant consumer savings. TRAC believes that in aggregate Delaware consumers could realize up to \$34 million in savings on their local and long-distance telephone bills one year after increased competition in the long-distance market. During that timeframe, TRAC estimates that 74,316 customers might switch their local phone service away from Verizon and 70,200 customers might switch their long-distance service to Verizon. TRAC projects that an individual customer could achieve up to \$254 in annual long-distance savings once Verizon enters the long-distance market. At the same time, a customer that chooses an alternative to Verizon's local service could save up to \$225 annually on his or her local telephone bill.

This report demonstrates that increased competition in the long-distance market can result in significant consumer savings on telephone bills. The sooner consumers are given greater choices in their service providers, the sooner they will be able to realize those savings.

APPENDIX A

Methodology

TRAC developed the methodology for this report based on its experience investigating potential residential savings in New York, New Jersey, Florida, Illinois, Pennsylvania, Georgia, California and New Hampshire. Although each state is unique, TRAC believes that the original methodology employed during its examination of New York is appropriate and valid for this study of Delaware. In general, TRAC based its calculations of projected savings on updated telephone rates and population variation while keeping other variables constant. Included below is a discussion of the issues TRAC considered while developing this study.

Data Collection

Data was based on TRAC's soon to be released long-distance *TeleTips_(sm)* Chart and an examination of local provider's rates and services (See Appendix C). A summary of the data collection methodology can be summarized as follows:

Information detailing residential phone rates was obtained by researching web sites of major phone companies. Any information that could not be found on the web sites was obtained by speaking with telephone company customer service representatives and was confirmed with at least one other company representative.

TRAC divided callers into calling baskets based on their levels of phone usage and the time of day of that usage. Callers were divided into three categories: those who make most of their calls during the day, those who make most of their calls at night or on the weekends, and those whose calls are spread evenly over days, nights, and weekends.

To be even more representative of consumer phone usage, TRAC factored in an assortment of directory assistance and calling card calls for long-distance service.

Calculation of Savings

The calculation of consumer savings were conducted using the same methodology as used in the 1999 and 2001 TRAC studies of New York. That methodology can be summarized as follows:

The study makes every attempt possible to choose conservative assumptions regarding which calling plans the residential customers subscribed to before customers switched to the Regional Bell Operating Company (RBOC) for long-distance service or switched away from the RBOC for local service. Consequently, the amount of consumer savings achieved is most likely underestimated.

Long-distance savings are determined by comparing the RBOC's prices to those of other long-distance companies. The range of possible consumer savings is based on conservative assumptions regarding which calling plans the residential customers subscribed to before they switched to the RBOC for long-distance service. Customers that switched service from the "industry average" tended to save a significant amount of money. The price differential between the industry average price and Verizon's lowest rates was considered the "high-estimate" of possible consumer savings.

The price differential between the lowest rates offered by AT&T and WorldCom price and Verizon's lowest rate was considered the "low-estimate" of possible consumer savings.

A similar approach is used to calculate the savings achieved when consumers switch to a RBOC competitor for local telephone service. In this study, TRAC subtracts the lowest-priced competitor's plan from the highest-priced Verizon plan to determine the high end of potential savings. TRAC then subtracts the lowest-priced competitor's plan from the lowest-priced Verizon plan to determine the low end of potential savings.

TRAC believes that consumers will react similarly to increased market competition. Specifically, that the same proportion of consumers will switch phone service in Delaware as did in New York.

In New York, 1.7 million customers had switched to Verizon's long-distance service one year after Verizon had entered the long-distance market there. Since Delaware's population is 6.5% of New York's as of 2000, TRAC estimates that the number of consumers affected by Verizon's entrance into the long-distance market should consequently be 6.5% of the New York's affected population. Consequently, 70,200 Delaware customers are projected to switch to Verizon long-distance telephone service within one year after Verizon has entered Delaware's long-distance market.

Delaware's population is 6.5% the size of New York's. Consistent with the methodology used in TRAC's previous state examinations, TRAC assumes that rate in which consumer's switch local service in Delaware will be two thirds that of New York. Therefore, while 2.7 million customers switched local service in New York, TRAC projects 74,316 Delaware consumers will switch away from Verizon's local services one year after Verizon has entered the long-distance market.

APPENDIX B
Delaware's Projected Residential Customer Savings One Year
After Increased Competition in the Long-Distance Market

Calling Basket (Pattern of Calls per Month)	Customers Affected	Low-Estimate of Monthly Per Customer Savings	High-Estimate of Monthly Per Customer Savings	Mean-Estimate of Monthly Customer Savings	Low-Estimate of Annual Savings	High-Estimate of Annual Savings	Mean-Estimate of Annual Savings
Local Savings							
Average Day, Minimal User	6,193	\$ (0.30)	\$ 28.15	\$13.93	(\$22,295)	2091995.4	\$1,034,850
Average Day, Light User	6,193	\$ 4.68	\$ 16.65	\$10.67	\$347,799	1237361.4	\$792,580
Average Day, Average User	6,193	\$ 4.79	\$ 10.52	\$7.66	\$355,974	781804.32	\$568,889
Average Day, Heavy User	6,193	\$ 11.27	\$ 19.62	\$15.45	\$837,541	1458079.92	\$1,147,810
Heavy Day, Minimal User	6,193	\$ 0.15	\$ 28.35	\$14.25	\$11,147	2106858.6	\$1,059,003
Heavy Day, Light User	6,193	\$ 5.00	\$ 16.65	\$10.83	\$371,580	1237361.4	\$804,471
Heavy Day, Average User	6,193	\$ 4.79	\$ 10.52	\$7.66	\$355,974	781804.32	\$568,889
Heavy Day, Heavy User	6,193	\$ 11.27	\$ 21.47	\$16.37	\$837,541	1595564.52	\$1,216,553
Heavy Night & Weekend, Minimal User	6,193	\$ (0.35)	\$ 28.15	\$13.90	(\$26,011)	2091995.4	\$1,032,992
Heavy Night & Weekend, Light User	6,193	\$ 4.38	\$ 16.65	\$10.52	\$325,504	1237361.4	\$781,433
Heavy Night & Weekend, Average User	6,193	\$ 4.62	\$ 10.35	\$7.49	\$343,340	769170.6	\$556,255
Heavy Night & Weekend, Heavy User	6,193	\$ 11.27	\$ 18.12	\$14.70	\$837,541	1346605.92	\$1,092,073
Total Local Savings	74,316	\$5.13	\$18.77	\$11.95	\$4,575,635	\$16,735,963	\$10,655,799
Long-Distance Savings							
Avg. Use 6 Calls	5,850	\$ 0.84	\$ 5.33	\$3.09	\$ 58,617	\$ 374,026	\$ 216,321
Avg. Use 12 Calls	5,850	\$ 3.21	\$ 10.94	\$7.08	\$ 224,991	\$ 767,988	\$ 496,490
Avg. Use 18 Calls	4,680	\$ 3.59	\$ 16.44	\$10.02	\$ 201,334	\$ 923,270	\$ 562,302
Avg. Use 36 Calls	3,510	\$ 5.80	\$ 27.98	\$16.89	\$ 244,296	\$ 1,178,349	\$ 711,323
Avg. Use 60 Calls	2,340	\$ 5.69	\$ 42.76	\$24.23	\$ 159,635	\$ 1,200,701	\$ 680,168
Avg. Use 180 Calls	1,170	\$18.09	\$ 94.74	\$56.42	\$ 253,913	\$ 1,330,150	\$ 792,031
Heavy Day 6 Calls	5,850	\$ 1.60	\$ 4.62	\$3.11	\$ 112,320	\$ 324,324	\$ 218,322
Heavy Day 12 Calls	5,850	\$ 2.89	\$ 9.74	\$6.32	\$ 202,527	\$ 684,029	\$ 443,278
Heavy Day 18 Calls	4,680	\$ 3.90	\$ 10.61	\$7.26	\$ 218,743	\$ 595,970	\$ 407,356
Heavy Day 36 Calls	3,510	\$ 5.64	\$ 25.88	\$15.76	\$ 237,557	\$ 1,090,066	\$ 663,811
Heavy Day 60 Calls	2,340	\$ 6.73	\$ 38.39	\$22.56	\$ 188,978	\$ 1,078,047	\$ 633,513
Heavy Day 180 Calls	1,170	\$15.80	\$ 91.06	\$53.43	\$ 221,762	\$ 1,278,482	\$ 750,122
Heavy Night & Weekend 6 Calls	5,850	\$ 3.54	\$ 6.57	\$5.06	\$ 248,508	\$ 461,354	\$ 354,931
Heavy Night & Weekend 12 Calls	5,850	\$ 0.83	\$ 10.14	\$5.49	\$ 58,266	\$ 711,547	\$ 384,907
Heavy Night & Weekend 18 Calls	4,680	\$ 0.70	\$ 17.44	\$9.07	\$ 39,312	\$ 979,430	\$ 509,371
Heavy Night & Weekend 36 Calls	3,510	\$ (0.40)	\$ 30.94	\$15.27	\$ (16,848)	\$ 1,303,193	\$ 643,172
Heavy Night & Weekend 60 Calls	2,340	\$ (2.96)	\$ 46.09	\$21.57	\$ (83,117)	\$ 1,294,263	\$ 605,573
Heavy Night & Weekend 180 Calls	1,170	\$ 75.52	\$162.69	\$119.11	\$1,060,231	\$ 2,284,196	\$1,672,213
Total Long-Distance Savings	70,200	\$ 4.31	\$ 21.20	\$12.76	\$3,631,025	\$17,859,385	10,745,205
Combined Total of Long-Distance and Local Savings	N/A	N/A	N/A	N/A	\$8,206,660	\$34,595,348	\$21,401,004

Appendix C

Services Offered by Residential Local Telephone Companies in Delaware

The following plans and feature packages were compared using TRAC's "calling baskets" to estimate the cost of local telephone service.

Plan Descriptions

Cavalier 60 month plan

\$9.28/mo.

Unlimited local calling

Cavalier 36 month plan

\$9.65/mo.

Unlimited local calling

Cavalier 12 month plan

\$10.18/mo.

Unlimited local calling

Cavalier Month to month

\$10.45/mo.

Unlimited local calling

Toll Calling Plans**Cavalier Package 1**

No monthly fee,

\$.09/min., all day, every day

\$.03 per minute to other Cavalier customers.

Cavalier Package 2

\$5.00/mo.

\$.07/min., all day, all week

\$.03 to other Cavalier customers.

Feature Packages**Cavalier Elite package**

\$15.25/mo.

Includes Call waiting, Caller ID, VM, Call forwarding, Repeat Dialing, Distinctive Ring, Return call, *69 unlimited, Call Block, and Anonymous Call Rejection

Cavalier Premium Value Package

\$12.75/mo.

Includes Call Waiting, Caller ID, and Voice Mail

Cavalier Value Plus Package

\$10.75/mo.

Includes Call Forwarding, Call Waiting, and Caller ID

Cavalier Basic Value Package

\$4.25/mo.

Call Waiting, call forwarding

Verizon Basic

\$9.40/mo.

\$2.22 for Unlimited local calling

Verizon Measured Local

\$.03/min for first three min.

\$.005/min for each add'l min.

50% discount from 9pm to 8:59am & weekends.

Verizon Standard Option

\$25.95/mo.

Includes dial tone, touch-tone service, Unlimited local calling, Unlimited Direct Dial Directory Assistance

Includes choice of three features

Verizon Premium Option

\$29.95/mo.

Includes Dial tone, Touch-tone service, Unlimited local calling, Unlimited Direct Dial DA

Includes choice of four features

Toll Calling Plans**Sensible Minutes**

No monthly fee

Flat \$.08/min.

Weekend Choice

\$2.95 monthly minimum

Flat \$.10/min.

Sound Deal

\$39.95/mo.

Includes dial tone, touch tone, unlimited local, 300 min. of toll calls, and \$.05/min. after

Choose any of 12 features

Feature Packages**The Big Deal**

\$17.99/mo.

Choose as many of the following: Caller ID w/ name, Call Waiting, Call Forwarding, Three-way Calling, Speed Dialing, Distinctive Ring, Ultra Forward, Talking *69, Repeat Dialing, Call Block, Fixed Call Forwarding, Voice Dialing.

Must subscribe to caller ID w/ name.

Feature Discounts

2 features per line - 10%

3 features per line - 15%

4 features per line - 20%

5 features per line - 25%

